

Main Topics Presented by the Financial Services Agency (FSA) at a Dialogue with Financial Sector Association (Japan Securities Dealers Association (JSDA))

September 17, 2024

1. Publication of the "JFSA Strategic Priorities July 2024-June 2025"

- On Friday, August 30, 2024, we published the JFSA Strategic Priorities July 2024-June 2025, which compiles our policy direction and priority issues for FY2024.
- For the details of the incorporated initiatives, please see the outline. The FSA will
 - steadily implement ongoing measures for promoting Japan as a leading asset management center, and
 - aim to ensure the stability and reliability of the financial system and secure high-quality financial functions, while flexibly responding to changes in social and economic environment.
- Based on the JFSA Strategic Priorities, we would like to share awareness of the issues and have constructive dialogues with you. We plan to hold briefing sessions in various areas from now on. If you have any questions, worries, or recommendations, please feel free to contact us.

2. Monitoring of securities business for PY2024

- Our policy on monitoring of securities companies incorporated in the JFSA Strategic Priorities July 2024-June 2025, which was published on Friday, August 30, 2024, is introduced below:
 - First of all, regarding securities companies' systems for developing, selling, and soliciting financial instruments, etc., we will monitor whether they are in line with laws and regulations and voluntary regulations of the industry. Our monitoring aims to ensure that distributors, etc. properly fulfill their fiduciary duty, in order to develop an environment in which households can purchase

financial instruments without worries.

- More specifically, we will monitor whether distributors, etc. have developed an appropriate product governance system, sale and management system, remuneration and performance evaluation system with the involvement of top management, and would like to have talks to encourage the distributors, etc. to make constant efforts to deepen their initiative regarding fiduciary duty.
- In order to detect and prevent unfair transactions, it is important for individual securities companies to develop their internal systems. Accordingly, we will monitor whether companies have established an effective compliance system and internal control environment, including systems for detecting and preventing unfair transactions and for managing information.
- In recent years, online transactions and cheaper transactions are increasing and individual companies' goods and services are becoming more and more diversified. Amid such daily changes in the competitive environment, we would like to have talks with companies, including their top management, concerning how to create sustainable business models in consideration of those changes, and will encourage them to develop a risk management system in accordance with the content of their businesses.
- Lastly, for major securities companies, we will have talks on their business models, including their strategies and measures for securing stable revenue from overseas businesses, as they are actively expanding businesses in and outside Japan.
- At the same time, these companies should make efforts to enhance their governance and risk management system on a group basis as well as on a global basis, in a manner commensurate with their business strategies. Therefore, we will encourage them to further enhance their governance and risk management system, in collaboration with foreign authorities, and will also discuss the improvement of internal audits and ideal utilization and development of IT and systems.

○ As financial institutions are accelerating business expansion across business

categories and beyond national borders, we will further strengthen collaboration among our departments in charge of supervision and monitoring of group financial institutions, with the aim of enabling companies to appropriately deal with challenges in group businesses and environmental changes and to expand business soundly, and for the purpose of continuously ensuring the stability and reliability of the financial system.

- In this manner, we would like to continue deepened dialogues in light of the characteristics and accompanying challenges of individual securities companies.

3. "Comprehensive Measures for Protecting People from Fraud"

- Since the latter half of 2023, there have been an increasing number of cases of damage caused by fraud, such as soliciting victims by false advertising on SNS while impersonating an investor or a prominent person, making victims trust the impersonator through communication on SNS, and defrauding money from them. In response, the government formulated the "Comprehensive Measures for Protecting People from Fraud" (provisional English title) this June.
- As one of the comprehensive measures, financial associations are requested to promote proper responses to false advertising. Specifically, the Japan Securities Dealers Association and other financial associations are requested to broadly collect information on false advertising and call people's attention to this problem, and to positively demand deletion when they find any false advertising, etc. by persons impersonating them.
- So far, we have had talks on specifics of the measures with the JSDA and other financial associations in a businesslike manner. Recently, (dated September 13), we issued a written request to them and their members to ask for the submission of reports on the implementation of collection of information on false advertising, issuance of warnings, demand for deletion of false advertising, etc. and on the results thereof.
- The government is now making a joint effort to prevent damage from investment fraud. We appreciate cooperation of the JSDA and individual financial institutions

in line with the latest written request.

4. NISA program

- The number of NISA accounts as of the end of June 2024 was approximately 24.28 million and the value of purchases was approximately 45 trillion yen in total. This suggests the situation where many people are interested in asset building triggered by the launch of the new NISA program. Financial institutions are requested to carry out PR activities to disseminate information on the new NISA program meticulously in an easy-to-understand manner so that people can appropriately use the program as one of the means for stable asset building.
- After rapid fluctuations of stock prices, etc. in early August 2024, the FSA issued a circular again on August 6, 2024 to financial institutions regarding points to note when they disseminate information on the NISA program and respond to customers who conduct transactions using NISA accounts.
- Specifically, financial institutions are requested to continue PR activities so that users can appropriately understand the following as a precondition for starting asset building:
 - It is important for users themselves to fully consider what funding needs will arise based on their life plans and life stages and how they need to build assets accordingly.
 - The significance of long-term, installment, and diversified investments and the fact that any investment involves various risks and a possibility of a loss of principal
 - For building assets, it is important to utilize various methods and systems, including options other than the NISA program, by combining them appropriately.
- Furthermore, financial institutions should fully fulfill their fiduciary duty for customers who conduct transactions using NISA accounts through such means as:
 - confirming the needs and risk tolerance of individual customers;
 - meticulously providing explanations on the characteristics and points to note, etc. regarding financial instruments that they propose or sell to customers;

- and following up customers after selling financial instruments.
- Financial institutions are expected to respond to customers properly so that they can understand the significance of long-term, installment, and diversified investments and build their assets without worries even amid large fluctuations in stock markets and exchange markets.

5. Handling of NISA accounts when leaving Japan

- The NISA program is premised on long-term holding, and the government has put in place a system to permit a person, who temporarily leaves Japan due to a transfer order or other unavoidable circumstances, to receive tax exemptions for listed shares, etc. they hold in a NISA account continuously for a certain period of time by undergoing relevant procedures in advance.
- However, responses in such a case vary by financial institution. Some adopt the system without special limitation, while others restrict the scope of covered financial instruments or have yet to take any measures. If customers do not know the details of financial institutions' responses, their proceeds may be paid out to accounts subject to taxation. Accordingly, financial institutions are requested to take measures from the perspective of enhancing customer convenience, such as publicizing on their website information regarding how they handle NISA accounts of customers who leave Japan or providing sufficient explanations to customers upon opening accounts.

6. Japan Financial Literacy and Education Corporation

- The Japan Financial Literacy and Education Corporation (J-FLEC) was established in April 2024 and it commenced full-fledged operation in August.
- On August 2, the opening ceremony of J-FLEC was held with the attendance of Prime Minister Kishida and the top executives of eight industry associations. Prime Minister Kishida stated that the High Level Meeting on Financial Literacy and Education will be held periodically, starting with this occasion as the first meeting.

- From now on, J-FLEC will play the central role in efforts for disseminating a broad range of financial and economic education throughout the nation, while considering how to prevent and take measures against financial disputes. As part of such efforts, multiple events are scheduled in collaboration between J-FLEC and individual financial institutions. We appreciate your cooperation.
- J-FLEC has already started to accept consultations on family budget management by phone and applications for the release of lecture materials for a wide range of age groups and lectures on demand at schools and companies. This fall, it plans to start free trials for private consultations to provide advice face-to-face or online in accordance with individuals' state of assets and life stages.
- We hope that your client companies utilize J-FLEC when conducting financial education for their employees. Please offer cooperation in disseminating relevant information to client companies.

7. Requests for tax reforms

- On Friday, August 30, 2024, the FSA published its requests for FY2025 tax reforms. Major requests are as follows.
 - [(i) Measures for promoting Japan as a leading asset management center]
 - Enhancement of the convenience of the NISA program
 - Required taxation measures accompanying the review of corporate pension and personal pension plans
 - Review of the requirements for payment in kind for inheritance tax for listed shares
 - Unification of taxation on income earned from financial instruments
 - [(ii) Measures for achieving an international financial center]
 - Review of the procedures for tax treaties, etc. toward the vitalization of cross-border investment
 - [(iii) Measures for achieving safe livelihood of the people]
 - Expansion of the life insurance relief system
 - Enhancement of the extraordinary contingency reserve system for fire insurance, etc.
- From now on, serious discussions will be held toward the year end. We appreciate your continued cooperation.

8. Monitoring on fiduciary duty (FD)

- With regard to monitoring concerning FD, the FSA will continue verifying whether distributors, etc. are developing, selling and managing financial instruments that will contribute to customers' best interests, in light of the status of sale of a broad range of risk-involving financial instruments.*1

*1 Risk-involving financial instruments to be intensively verified on the basis of risks are selected based on the results of the past monitoring, in addition to sales results and past complaints.

- Concrete verification points are as follows.

- (i) The status of the development of the product governance system, sale and management system, remuneration and performance evaluation system for a broad range of risk-involving financial instruments, including how distributors, etc. respond to regulations, etc. of the industry in relation to foreign currency-denominated single premium policies and structured bonds, for which problems were found in past monitoring, and the actual status of their sale and management of bonds in foreign currencies and foreign stocks, by placing the focus on the aspect of collaboration between banks and securities companies*2

*2 Including the status of the involvement of top management and the status of the first-line, second-line, and third-line functions

- (ii) The status of how implementation policies based on the Principles for Customer-Oriented Business Conduct have penetrated among sales personnel and the status of efforts being made to give first priority to customers' interest
- (iii) From the perspective that the consistency between business strategy and fiduciary duty is important when building a sustainable retail business through creating shared value with customers, talks focused on the status of profit and loss of management accounting (of the relevant business) and the status of the fees obtained for each financial instrument, etc.

- This monitoring aims to verify whether financial instruments suited to individual customers are being sold in an appropriate manner from the perspective of seeking customers' best interests for the purpose of promoting Japan as a leading asset management center, and does not intend to uniformly deny any specific financial instruments.

9. Japan Weeks

- Following the previous year, in 2024 as well, various events will be held as Japan Weeks 2024 from September 30, in cooperation among related parties, to broadly disseminate information on policy measures for achieving an international financial center or otherwise promoting Japan as a leading asset management center and the attractions of Japan as a financial capital market.
- In the previous year, 25 events were held and more than 10,000 people participated from the financial sector. This year, the number of events will be much larger than in the previous year, exceeding 40. During the Japan Weeks, the Asset Management Forum will be established as a venue for dialogue among domestic and foreign asset management companies, etc.
- If you have any opinions on the initiative to promote Japan as a leading asset management center, or any events you are designing for the Japan Weeks and would like to post and register on the dedicated website as a related event, please feel free to contact us.

10. Strengthening of the management of outsourcees

- There are recent cases where cyber incidents that happened to third parties caused the leakage of customers' information that are shared by financial institutions with those third parties.
- Financial institutions are responsible for properly managing customer information even in the case of information leakage caused by an incident at their outsourcee.
- Financial institutions should check the effectiveness and sufficiency of their management of outsourcees by examining causes of incidents at their important outsourcees, ensuring the effectiveness of recurrence prevention measures, or otherwise considering alternative measures in case those measures cannot be ensured, and in case their third parties cannot make improvements as required.

11. Government-wide efforts to strengthen cybersecurity

○ Since June 2024, the Cabinet Secretariat has held meetings of the Expert Panel toward Improving Response Capabilities in the Field of Cybersecurity for the purpose of deliberating on the development of legal systems that will be required for implementing new initiatives on cybersecurity based on the National Security Strategy of Japan (Cabinet decision on December 16, 2022).

○ The Strategy states the following regarding critical infrastructures:

- Japan will advance efforts on information sharing to the government in case of cyberattacks among the private sector; and
- The government will take its initiatives for coordinating and supporting incident response activities for the private sector.

It is supposed that the financial sector will also be subject to discussions in the development of such systems in terms of public-private collaboration.

○ In the government-wide efforts to develop relevant systems, the FSA would like to continue to exchange views with the financial industry.

12. Cybersecurity Guidelines

○ Cyber risks are growing along with innovation and the rise of geopolitical risks. Accordingly, financial institutions need to have robust cybersecurity posture and risk management practices in place to respond to those risks trends given the fact that cyber risk is one of the top risks to financial institutions. In consideration of recent trends of threats, past monitoring results, and domestic and international circumstances, the FSA has drafted new guidelines concerning cybersecurity and sought public comments. We appreciate your opinions on the draft. Based on the submitted comments, the FSA will finalize and publish new guidelines.

○ Given that the size and characteristics vary by financial institution, a uniform approach is not expected to be taken by financial institutions for both of the items basically required and the items desirably required that are described in the guidelines. We consider it necessary for individual financial institutions to identify and assess cybersecurity risks based on their own business profile, business strategy

and risk tolerance and take risk mitigation measures accordingly (to adopt a so-called "risk-based approach").

- It may take time for financial institutions to address their challenges in improving their cybersecurity posture. Financial institutions are expected to prioritize issues in their challenges in accordance with the importance and urgency of such issues and take actions accordingly.
- In consideration of the importance of and risks in the financial system, the FSA will put the guidelines into practice and urge financial institutions to strengthen their cybersecurity posture.

13. Financial Industry-wide Cybersecurity Exercise (Delta Wall IX)

- The FSA will plan to conduct a cybersecurity exercise (Delta Wall IX) in October 2024 in order to enhance the capability of the financial industry as a whole to respond to cyber incidents.
- Participating financial institutions are expected to involve not only IT/cybersecurity departments but also top management in the exercise, , and fully utilize the results of the exercise thereafter, instead of being satisfied only with the fact of having participated in the exercise.

14. Cybersecurity Self-Assessment (CSSA)

- At present, the FSA, jointly with the Bank of Japan, are compiling the results of the Cybersecurity Self-Assessment (CSSA), which we asked individual financial institutions to respond to the self-assessment questionnaire via the JSDA in late June 2024.
- We are planning to provide feedback for financial institutions with comparison to others from November 2024 onward. Top management should lead their organization's efforts for improving the effectiveness of their cybersecurity measures, including the personnel/ budgets and human resources development, based on the results of the CSSA.

15. Asset Owner Principles

- The Asset Owner Principles, common principles concerning asset owners' operation, governance and risk management, were finalized after undergoing a public comment process and were published by the Cabinet Secretariat on Wednesday, August 28, 2024.
- Securities companies, which are conducting transactions with various asset owners, are expected to offer support based on the purport of the Principles to customer asset owners so that they can properly fulfill their fiduciary duty.
- Securities companies that hold a defined-benefit corporate pension plan are requested to consider the acceptance of the Principles from the asset owners' standpoint.

16. Efforts for sustainable finance

- The Expert Panel on Sustainable Finance published its fourth report in July 2024.
- In particular, impact investment, which aims to achieve social and environmental effects (impact) while securing a certain level of return on investment, will play a significant role in supporting companies that are working for technological development and business innovation that will contribute to solving social and environmental issues.
- In order to establish and disseminate means for impact investment, the Impact Consortium, in which a broad range of related persons participate from the public and private sectors, was launched and deliberations are being held. You are all expected to take interest and participate or otherwise positively get involved in the consortium.
- In addition, in order to make it easier for diverse investors to participate in the sustainability investment market, dialogues were held with related persons to talk about investment products that promote GX and sustainability, and the Insights from

Dialogue on Enhancing Sustainability Investment Products was published in July 2024.

- Based on these efforts, the Expert Panel on Sustainable Finance will have discussions on specific investment opportunities in light of characteristics and other factors of investors, and will provide investors with opportunities and information to enable them to realize the basic significance and effects of sustainability-themed investing. We appreciate your opinions on this issue.

17. Financial measures in response to the disaster, etc. caused by Typhoon No. 10 in 2024

- We express our condolences and sympathies to victims of the disaster, etc. caused by Typhoon No. 10 in 2024.
- The Disaster Relief Act is applied to Aichi, Kagoshima, Miyazaki, Oita, Fukuoka, Shizuoka, Kanagawa, and Gifu Prefectures in relation to the disaster caused by the latest typhoon. In response, Local Finance Bureaus having jurisdiction over covered areas and the Bank of Japan jointly issued a notice requesting financial measures to relevant financial institutions, etc.
- Financial institutions in disaster-affected areas are requested to sufficiently ascertain disaster victims' opinions and needs and offer support meticulously from their standpoints based on the issued requests.

18. Preparation in response to the Nankai Trough Earthquake Extra Information (Megathrust Earthquake Attention)

- The Japan Meteorological Agency issued the Nankai Trough Earthquake Extra Information (Megathrust Earthquake Attention) in response to the occurrence of an earthquake of magnitude 7.1 centered in the Hyuganada, Miyazaki Prefecture, on August 8, 2024. Accordingly, individual financial institutions are requested to recheck the section, "Various financial services support measures in Advance Evacuation Areas related to a Nankai Trough Earthquake or other areas," in the

current "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." and steadily check and review their own BCPs.

19. Outcomes of the G20 Finance Ministers and Central Bank Governors Meeting in July

- The G20 Finance Ministers and Central Bank Governors Meeting was held in Rio de Janeiro, Brazil, from July 25 to 26, 2024. Major outcomes related to the financial sector in the joint communique published after the meeting are outlined below:
 - First of all, members reaffirmed their commitment to address the financial system's vulnerabilities and the timely implementation of international financial reforms. In particular, the agreement by the Group of Central Bank Governors and Heads of Supervision (GHOS) in May 2024 to implement all aspects of the Basel III framework in full, consistently and as soon as possible was also reaffirmed by G20 members.
 - Members welcomed the Financial Stability Board's (FSB's) Annual Progress Report on enhancing the resilience of non-bank financial intermediation (NBFIs) sector, expressed support for the implementation of the FSB's revised policy recommendations to address vulnerabilities arising from liquidity mismatch in open-ended funds, and encouraged the FSB to finalize its policy work on margin preparedness and leverage.
 - On crypto-assets, members also reaffirmed their commitment to implement effectively, timely and in a coordinated manner the FSB's High-Level Recommendations, and expressed support for the Financial Action Task Force's (FATF's) work to accelerate the global implementation of its Standards and to monitor the impact on the financial integrity of emerging technologies and associated risks, including from DeFi arrangements and peer-to-peer transactions.
 - Members reiterated their commitment to a timely and effective implementation of the G20 Roadmap to Enhance Cross-border Payments, and welcomed the FSB's stocktake of financial authorities' regulatory and supervisory initiatives and challenges related to the identification and assessment of nature-related financial

risks.

- Lastly, on sustainable finance, members expressed support for the discussions advancing "just" transition plans for financial institutions and corporates, and looked forward to the recommendations on how to address challenges faced by small and medium-sized enterprises (SMEs) and emerging market and developing economies (EMDEs) in particular, and to promote reliable, comparable and interoperable sustainability reporting disclosure standards.
- The next G20 Finance Ministers and Central Bank Governors Meeting is scheduled to be held in Washington D.C. in October 2024. The FSA will continue to communicate with financial institutions and contribute to global discussions.